BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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| In the Matter of | ) | |
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| Federal-State Joint Board on Universal | ) | WC Docket No. 05-337 |
| Service Seeks Comment on Long Term, | ) | |
| Comprehensive High-Cost Universal | ) | |
| Service Reform | ) | |

**Comments of:**

**Gardonville Cooperative Telephone Assocation, a Minnesota ILEC**

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May 31, 2007

## INTRODUCTION

These comments are submitted on behalf of Gardonville Cooperative Telephone Association in response to the Federal-State Joint Board on Universal Service requests for comment on long term, comprehensive high-cost Universal Service Reform[1]. Gardonville Cooperative Telephone Association is a member-owned cooperative which provides telecommunication services in rural west central Minnesota with the main office located in Brandon, Minnesota. Gardonville currently has approximately 3,400 access lines in the four exchanges they serve. Gardonville currently offers telephone service, long distance and a variety of Internet services to its customers. Gardonville was formed in the early 1940's by a group of customers with a desire and understanding of how important telecommunications would be for their future. Since that time, the network has been upgrade several times to provide the latest technology to the members of Gardonville.

As the USF fund and end user assessment have grown it has become increasingly evident that universal service support is in need of reform. The Joint Board has been exploring processes such as the use of reverse auctions in order to address the growth of the Universal Service Fund. The use of reverse auctions could lead to even more potential problems with the Universal Service Fund. It is important that the Joint Board look at the underlying issues causing the instability with the Universal Service Fund. The process of using embedded network costs for the basis for rural ILECs universal service support and eliminating the Identical Support Rule for CETCs would greatly decrease the current strains on the fund. It is also time that universal service support allows for full cost recovery in order

[1] *Federal-State Joint Board on Universal Service Seeks Comment on Long Term, Comprehensive High-Cost Universal Service Program*, CC Docket No. 96-45, Public Notice, FCC 07J-2 (rel. May 1, 2007)

to promote broadband deployment in rural America and encourage companies to invest in broadband networks.

**Use of Reverse Auctions to Determine High-Cost Universal Service Support**

The Joint Board has attempted to address problems with the current high-cost fund by proposing to establish a reverse auction to distribute universal service funds. The overall concern of growing fund size is one that is in need of immediate reform. However, a reverse auction is not the answer to the problems facing the Universal Service Fund.

Reverse auctions would fail to encourage network investments or upgrades. They would actually create uncertainty and unpredictability for financing large network investments. Companies could not count on the USF as they currently do to support the large investments they make without assurance that those costs would be recovered. Companies may not look at long term investments since support for a certain area may be re-auctioned after the term of the bid. The company would only continue to receive support if they were the continuing winner of all future bids.

Further, many companies require outside financing from lenders to assist in financing large investments in their network infrastructure. Lenders may become hesitant in issuing funding when the companies finances are based on winning a competitive auction. This unpredictability and the need for investment recovery, no matter the amount, may cause companies to underbid in order to win the bid. This could potentially cause companies to sacrifice the quantity and quality of services they offer their customers to ensure they win the bid. Because ILECs fall under rate-of-return regulatory structures, if universal service support became a fixed amount based on the bids, there may not be a way for these companies to make up for any shortfalls in cost recovery.

It is essential that the Joint Board address the underlying causes behind the increases in the Universal Service Fund rather than developing an auction process.

Reducing the fund by the use of an auction could make ILECs the primary victims. As Chairman Martin acknowledged in his Opening Remarks to the Joint Board En Banc Meeting on February 20, 2007, since 2003 ILEC universal service payments have remained flat and have even gone down in some years. Nearly all of the huge growth in high-cost universal service is attributed to CETC USF payments. The payments to CETCs have grown at a rate of 101% per year since 2002 and continue to grow[2].

Part of the reason for this growth is that CETCs receive universal support based on the ILECs per line support rather than based on their own costs. In the case of wireless CETCs, they could be receiving support for multiple lines per household at the same per line amount as the ILEC who would typically receive only support for one line per household. Further, the ILEC's investment in that one line is often greater than a wireless CETC's investment in multiple phones. In addition to these issues, there are distinct differences between ILECs and CETCs in their regulatory limits, carrier of last resort obligations among other things. These items will be discussed in further detail below. It is imperative that the Joint Board address these core issues which are causing the increase in the high-cost universal support.

Implementing a reverse auction may only make the fund larger because of administrative needs, monitoring, and implemention costs may outweigh any benefit. Further, such auctions would likely reward low cost providers that have little investment and less reliable networks at the expense of ILECs like Gardonville that have made significant network investments to provide a highly reliable service to all its members. A large carrier may have a better opportunity to low ball a bid in order to win the bid, but not be required to serve all the high-cost customers in the serving area.

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[2] Opening Remarks of Chairman Kevin Martin, *Federal-State Joint Board on Universal Service En Banc Meeting,* Washington, DC, p. 4 (Feb. 20, 2007)

## Use of GIS Technology and Network Cost Modeling

With telecommunications technology rapidly changing, the use of GIS technology and network cost modeling would be very difficult to develop and maintain. While cost models can be very helpful, it can be difficult to incorporate factors that can be complex, such as geography, demographics, company size, and other market characteristics. Gardonville is located in rural Minnesota and has unique geographic issues, including many lakes and trees, that would make using a cost model very difficult. On top of developing a model that can be used by the thousands of wire centers across the country, the ever changing telecommunications technologies would make it costly and difficult to maintain. Cost models in essence are based on theory and it would be difficult to impose regulations based on theoretical situations.

## Disaggregation of Support

Disaggregation was created to allow ILECs to receive high cost support at a level below the study area level, such as the wire center level. Companies that have locations in their serving areas that are more costly to serve than others may disaggregate their study area. Gardonville chose not to disaggregate its study area and receive support based on the average cost per line. The CETCs in the serving area receive support based on the disaggregation paths selected by the ILEC. The current disaggregation process is sufficient in calculating support. Requiring all carriers to disaggregate may result in wireless and other CETCs to target the higher cost areas in order to receive higher support per line. It may also cause questions if lines are being reported based on the level of support that could be received or where the customer resides or maintains an address of record.

## Methodology for Calculating Support for Competitive ETCs

Currently, CETCs receive high-cost universal service support based on the per line embedded costs of the ILEC in that serving area. This is referred to in the industry as the

Identical Support Rule. The elimination of the Identical Support Rule in itself would greatly decrease the size of the fund. In most cases, the costs of CETCs are lower than the ILEC in the area due to regulatory obligations imposed on the ILEC in the serving area.

The current methodology for calculating support does not take into consideration the regulatory requirements placed on ILECs that CETCs are not subject to. One of those regulatory obligations is the Carrier of Last Resort Obligation. CETCs can refuse service to any customer they feel would be too costly to serve. In general, CETCs do not serve remote rural customers which are generally the most costly to serve. In most areas, the ILEC is considered the Carrier of Last Resort and it is necessary to offer the same services to customers in the most remote areas as they do to their urban customers. ILECs like Gardonville often have miles of cable between the customer and the serving wire center. It can be very costly to serve these customers, however, as the Carrier of Last Resort these ILECs are obligated to serve these high-cost areas. This causes the ILEC to have increased cost with the CETC getting a windfall from that high cost per line support.

In addition to Carrier of Last Resort Obligations, ILECs are also limited as to the amount they can receive for providing service by Rate-of-Return regulations. The wireless CETCs are not under any regulations as to the amount they can receive for their services. Some ILECs are not only subject to Rate-of-Return regulations for interstate services, they are also subject to state Rate-of-Return regulation which limits the amount they can also receive on intrastate services. These limits make it essential that they receive cost-based universal support to ensure sufficient cost recovery to provide needed and supported services.

ILECs are also subject to obligations relating to access to their networks by other carriers including wireless carriers on a wholesale basis. The wireless CETC often requests access to the ILECs network in order to transport their wireless services. While the carriers

do compensate the ILEC for access to their network for incremental costs, it is not sufficient to support the embedded costs of maintaining their networks. In essence, an ILEC is required to maintain its network in order for other carriers to provide competitive services.

USF payments should be based on the carrier's own costs. An ILECs costs are very different than a CETCs cost in the same serving area. ILECs have many obligations that are not imposed on CETCs. Existing support for Rural ILECs are based on their embedded network cost and ILECs have been very successful in achieving universal service objectives. USF has encouraged companies to invest in their networks and enabled their customers to have affordable, high-quality services that they may have otherwise been unable to receive. Embedded costs for a CETC are often much less than an ILECs for many reasons. Basing CETC support funding on their embedded costs per line versus the ILECs cost per line, would have a great impact on the size of the fund yet will still achieve the objectives of universal service for ILECs and CETCs.

**Use of Universal Service Funding to Promote Broadband Deployment**

Section 706 of the Telecom Act of 1996 requires the FCC and state commissions to encourage the deployment of advanced services to all Americans on a reasonable and timely basis by removing barriers to infrastructure investment. Broadband services are very important to the survival of the small communities like those that Gardonville serves. Small communities rely on state of the art communications to attract businesses, industry, and residents. In today's world, broadband technologies are essential for the day to day operations of many businesses and individuals. Not only are these technologies important for businesses, they are essential to our education systems, public health, and safety. Small communities can not survive without these necessities and should not have to sacrifice economic growth because of the lack of broadband technology. Although these things are essential to the sustainability and growth, many ILECs like Gardonville face challenges to

broadband deployment. Many of these areas have sparse and dispersed populations, great distances between the customers and the serving wire center, and the lack of economies of scale. In order for the deployment of broadband technology required by the Telecom Act of 1996, it is important that companies receive full recovery for their broadband investments. It is also important that the companies continually implement the newest technologies. Although a company may be providing broadband service today, with the rapid changing technology, they must be continually upgrading their networks.

## CONCLUSION

The Joint Board is taking important steps in reviewing the need for universal service reform. The risks of using reverse auctions would greatly outweigh any potential benefits, if any, that may be seen. The Joint Board is encouraged to continue using embedded network costs as a basis for universal service support as it has been successful in meeting the goals that were intended for universal service support. In addition, the Identical Support Rule should be eliminated for CETCs as they are receiving the windfall benefits of the per line costs of the ILEC in the serving area even though their regulatory and Carrier of Last Resort obligations differ and the ILEC has much higher costs.

It may also be a challenge to use GIS technology and network cost modeling as it would be very expense and difficult to maintain. Requiring all ILECs to disaggregate may lead CETCs to target the high cost areas and lead to cream skimming. It is necessary to continue the efforts for universal service reform. In order to accomplish universal service reform in the long term, the Joint Board needs to look at what is causing the problems and make adjustments to the underlying problems rather than implement procedures like reverse auctions which would cause ILECs to be the victims of this shorted sighted policy.

Last, it is also important that broadband technologies are included in universal service support. Technology is ever changing and it is essential that companies are able to recover the cost of providing the latest technology to their customers.

Respectfully Submitted

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